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H PLEASE PASS TO HASC CHAIRMAN SKELTON

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SUBJECT: SENIOR FRENCH ADVISOR DISCUSSES THE FINANCIAL AND
ECONOMIC CRISIS WITH CODEL SKELTON

¶1. (SBU) Senior advisor in the office of the French President Damien Loras and House Armed Services Committee Chairman Skelton and colleagues engaged in a lively discussion of the financial and economic crisis during a meeting November 24. They also briefly discussed relations with Russia. Participating in the bipartisan Codel were: Chairman Ike Skelton (HASC), Congressman Solomon Ortiz (D-TX), Congressman Rick Larsen (D-WA), Congresswoman Madeleine Bordallo (D-Guam), Congressman Tim Murphy (R-PA and Congressman David Loebsack (D-Iowa). DCM and Political M-C also participated.

¶2. (SBU) Loras praised Washington's willingness to host the G-20 Summit meeting. He sought to dispel any lingering suspicion that France had wanted the U.S. to host in order to spotlight the U.S. as the source and center of the crisis. Instead, he argued that it was important for a "refoundation" to start in the U.S. and in the west and for the United States to keep control of the process and be at its center. He was quick to stress this should not be seen in opposition to trends in emerging economies, but to ensure others not take advantage of our divisions. Loras went on to say the crisis cannot be solved without the involvement of big emerging economies like China, India and Brazil. To get their support, they will need a bigger role in the IMF and possibly in a G-8 type structure that is larger than eight, but smaller than the G20 format. Loras also sought to dispel any differences over the speed and extent of regulatory initiatives, saying that many in France welcomed Washington's push back against traditional French calls for greater regulation. Sarkozy, he argued, was trying to wean France away from over regulation and toward a freer market economy; the financial crisis has made this more difficult, but Sarkozy remains committed to reform.

¶3. (SBU) Loras urged maximum coordination in rolling out stimulus packages so that we can together have a maximum impact on the world's economies. Responding to a question, Chairman Skelton and others referred to a stimulus package under discussion in the Senate that both Houses may consider when they resume work December 8. They also noted that if no agreement is reached, President-elect Obama has made clear he wants the new Congress to begin work on January 6, when it is sworn in, and to have a stimulus package ready for him shortly after inauguration. The package could be in the range of USD 150 billion to 300 billion or more. Part of the package would focus on infrastructure projects, as well as an increase in food stamp projects and as a down payment on a tax cut package. Funding would likely be through deficit spending. Loras noted that France is trying to work with EU partners to develop the largest stimulus package possible. The UK has already announced its plans; Sarkozy was meeting with Merkel the same day to try to win support for national decisions that would be coordinated to have the greatest impact. France hopes this can be announced at the December

meeting of European Heads of State.

¶4. (SBU) Asked about Russia, Loras presented the French view that the government in Moscow is a sometimes dangerous and unpredictable partner. Sarkozy and France believe it is more important to engage with them; that it is not in our interest to let them be isolated. The decisions taken to expand the EU and NATO were good decisions, but going further could provoke Russian non-cooperation on issues from Iran - including selling Iran surface to air missiles - to pipeline disruption to nuclear waste disposal that would not be in our interest. Engaging Russia is a long-term process. But the current economic crisis has proven that the Russians can't improve their economy alone and need our help. Even their economic assistance, which he said was almost USD 200 billion so far, had had no domestic impact. In Sarkozy's view it is better to have Russia with us than against us, but not, he emphasized, at any cost.

¶5. (SBU) Codel Skelton staff authorized us to transmit this cable without review by the Codel.

STAPLETON